GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3088
ANSWERED ON:07.12.2001
LIQUIDITY IN FINANCIAL MARKET
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Will the Minister of FINANCE be pleased to state:

(a) whether RBI has any proposals to maintain liquidity by injecting cash through reserve repurchase agreements;

(b) if so, the number of such agreements that have been finalised in this manner;

(c) whether such actions of RBI will be sufficient to enhance liquidity in the financial market;

(d) the additional steps does RBI propose to create buoyancy in the economy; and

(e) the reasons for not acting in time to create liquidity and buoyancy in the economy by RBI?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a) and (b): The Reserve Bank of India (RBI) has introduced the Liquidity Adjustment Facility (LAF), which consists of repurchase and reverse repurchase operations, from June 5, 2000. LAF seeks to adjust systemic liquidity on a day-to-day basis in a flexible manner. Since LAF is operated on a daily basis except on holidays and Saturdays, no separate agreement is necessary with participants for operation of LAF. There were 34 occasions involving an average injection of Rs.2,346 crore for 1 day to 3 days during the current fiscal year upto November 30, 2001.

(c), (d) and (e): Under normal circumstances, the overall stance of monetary policy for 2001-02 continues to be the provision of adequate liquidity to meet credit growth and support revival of investment demand while keeping a vigil on inflation. RBI has indicated continuance of stable interest rate environment with a preference for softening to the extent the evolving situation warrants. The cut-off yields of 364-day Treasury Bills have come down from 8.80 per cent in April 2001 to 6.68 per cent in November 2001. Similarly, the primary yield of 15-year Government of India dated security has also softened substantially from 11.10 per cent in May 2001 to 8.62 per cent in November 2001. The liquidity situation in the economy has improved significantly during 2001-02.